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Message Text

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07
ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 NSCE-00
SSO-00 ICAE-00 INRE-00 JUSE-00 /108 W
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O R 010835Z AUG 78
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC IMMEDIATE 2120
USDOC WASHDC IMMEDIATE
INFO USMISSION EC BRUSSELS
AMEMBASSY SEOUL
AMEMBASSY TAIPEI IMMEDIATE
AMEMBASSY TOKYO
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 10167

STATE PASS STR ELECTRONICALLY FOR LANDE

STATE PASS DEPARTMENT OF LABOR FOR BLACKMAN

COMMERCE FOR DEPUTY ASSISTANT SECRETARY SHEPHERD

BRUSSELS FOR USEC

TAIPEI ALSO FOR MIKE SMITH

E. O. 11652: GDS
TAGS: ETRD, HK
SUBJECT:NON-RUBBER FOOTWEAR: HONG KONG GOVERNMENT POSITION AND
HONG KONG INDUSTRY DATA

1. WHILE IN HONG KONG FOR JULY 17-21 TEXTILES CONSULTATIONS WITH
HKG, STR NEGOTIATOR MICHAEL B. SMITH INFORMALLY DISCUSSED NON-
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RUBBER FOOTWEAR ISSUES WITH HKG DIRECTOR OF TRADE LAWRIE MILLS.
PARAGRAPHS 2 THROUGH 9 OF THIS MESSAGE CONTAIN SMITH'S REPORT
ON HIS CONVERSATIONS WITH MILLS.

2. IN SEPARATE CONVERSATIONS WITH LAWRIE MILLS, SMITH
RAISED POSSIBILITY AND FEASIBILITY OF CERTIFICATE OF ORIGIN
(C/O) FOR HK EXPORTS TO USA OF NON-RUBBER FOOTWEAR. MATTER

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WAS RAISED IN SPIRIT OF TRYING TO BE HELPFUL TO HKG WITH
POSSIBLE OUTSIDE CHANCE IN MIND THAT C/O WOULD ELIMINATE
NEED FOR OMA IF IT TURNED OUT THAT SURGE IN HK EXPORTS WAS
ACTUALLY CAUSED BY TRANSSHIPMENTS FROM TAIWAN OR ELSEWHERE.

3. UNFORTUNATELY, MILLS WAS LESS THAN COOPERATIVE AND EVINCED
NO DESIRE TO INITIATE ACTIONS ON HKG'S PART. IN JULY 17
CONVERSATION, MILLS RESTATED FAMILIAR STANCE THAT USG SHOULD
REGULATE LARGER SUPPLIERS (E.G. ITALY) FIRST. MORE
IMPORTANTLY, HE HAD A FELLING THAT THE SURGE OF IMPORTS FROM
HONG KONG REALLY DID COME FROM HONG KONG AND WERE NOT TRANSSHIPMENTS.
WHEN SMITH ASKED MILLS IF HKG WOULD ESTABLISH A C/O SYSTEM, MILLS
REPLIED THAT EXISTING HKG REGULATIONS DID NOT REQUIRE MANDATORY
COMPLIANCE WITH C/OS FOR FOOTWEAR AND THAT IT WOULD TAKE SOME
TIME TO GET THE NECESSARY LEGISLATION PASSED (UNLIKE HONG
KONG'S PROMPT ASCESSION TO THE ENDANGERED SPECIES CONVENTION, IN
ORDER TO PROTECT ITS IVORY TRADE.) FINALLY, MILLS SAID HKG
WOULD CONSIDER C/O SYSTEM ONLY IF USG REQUESTED IT - HKG WOULD
NOT VOLUNTARILY INITIATE SUCH A SCHEME.

4. ON THURSDAY AND FRIDAY, JULY 20 AND 21, ARTICLES IN LOCAL PRESS
REPORTED THAT RUBBER FOOTWEAR ASSOCIATION HAD REQUESTED HKG TO
INITIATE C/O SYSTEM. MILLS CLAIMED HE KNEW NOTHING OF SUCH
A REQUEST.

5. ON FRIDAY, JULY 21, SMITH AGAIN RAISED C/O MATTER FIRST BY
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ASKING WHAT CONSTITUTED HONG KONG ORIGIN CRITERIA FOR
FOOTWEAR. MILLS REPLIED THAT THERE WERE TWO TYPES OF C/O
FOR FOOTWEAR. THE FIRST WAS A "CERTIFICATE OF HONG KONG
ORIGIN" IN WHICH THE UPPER (VAMP) AND THE SOLE MUST BOTH BE
MADE IN HONG KONG AND FIXED TOGETHER IN HONG KONG. IN OTHER
WORDS, THE ENTIRE SHOE MUST BE MADE AND ASSEMBLED IN HONG KONG
TO QUALIFY FOR HONG KONG ORIGIN. THE SECOND C/O IS A
"CERTIFICATE OF ORIGIN - PROCESSING" ON WHICH THE HONG KONG
PRODUCER LISTS ONLY THE PROCESSES DONE IN HONG KONG, E.E.,
AN ASSEMBLY OPERATION. THIS CERTIFICATE DOES NOT CONFER HONG KONG
ORIGIN AS FAR AS THE HKG IS CONCERNED.

6. SMITH THEN ASKED MILLS INFORMALLY IF HKG WOULD CONSIDER

STOPPING THE FOOTWEAR ASSEMBLY OPERATIONS AS IN DOLLAR TERMS THESE
HAVE LITTLE VALUE FOR HONG KONG. MILLS GAVE AN "UNQUALIFIED NO"
STATING THAT 25 PERCENT OF HK'S INDUSTRY INVOLVED ENTREPOT AND/OR
ASSEMBLY TRADE, AND THAT THE HKG WOULD NEVER CONSIDER STOPPING
EVEN A MINUTE PORTION OF SUCH TRADE. HE WENT ON TO SAY THAT
IF THE NON-RUBBER FOOTWEAR ASSEMBLY TRADE PROSPERED, THIS COULD
ONLY BE FOR THE GOOD OF HONG KONG AND COULD LEAD TO A STRONGER,
FULLY INTEGRATED FOOTWEAR INDUSTRY, AS ELECTRONICS ASSEMBLY

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OPERATIONS HAD DEVELOPED INTO HK'S PRESENT SOPHISTICATED INDUSTRY.

7. IN VIEW OF MILLS' POSITION ON THE ASSEMBLY OPERATIONS, THERE APPEARED NO POINT IN PURSUING THE C/O OPTION ANY FURTHER. MILLS HAD BEEN GIVEN A POSSIBLE WAY OUT, AND HE DECLINED TO PICK UP ON IT. INDEED, HIS AGRESSIVENESS ON THE ASSEMBLY OPERATIONS, OF SAYING THAT SUCH OPERATIONS SHOULD ONLY BE ENCOURAGED, WOULD SEEM TO INDICATE THAT HKG AT LEAST WELCOMES THE POSSIBLE TRADE DIVERSION FROM TAIWAN. SMITH REMAINS PERSUADED THAT, GIVEN HONG KONG PRESENT CAPACITIES IN THIS FOOTWEAR, HAD MILLS INDICATED HE WOULD OR COULD CRACK DOWN ON THE ASSEMBLY OPERATIONS, THERE WOULD BE LESS NEED FOR AN OMA ON HONG KONG ORIGIN FOOTWEAR.
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IN ANY EVENT, THE C/O OPTION APPEARS DEAD AND IN SMITH'S VIEW SHOULD BE PURSUED NO FURTHER.

8. DURING THE TWO EXTENDED CONVERSATIONS ON JULY 17 AND JULY 21, MILLS REPEATEDLY TRIED TO LINK TEXTILES AND FOOTWEAR, E.G. USG REQUEST FOR LIMIT ON WOOL SUITS AND USG REQUEST FOR FOOTWEAR RESTRAINT. SMITH REPEATEDLY WARNED MILLS THERE WOULD BE NO LINKAGE, THAT IT WOULD BE TO HKG'S DISADVANTAGE TO LINK THEM, THAT HE (SMITH) WAS SIMPLY TRYING TO BE HELPFUL, AND THAT THESE CONVERSATIONS WERE, FROM THE USG VIEW,PURELY INFORMAL.

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
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NSAE-00 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01
TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 NSCE-00 SSO-00
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INFO USMISSION EC BRUSSELS
AMEMBASSY SEOUL
AMEMBASSY TAIPEI IMMEDIATE
AMEMBASSY TOKYO
USMISSION GENEVA

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9. MILLS' RELUCTANCE (OR REFUSAL) TO UNDERSTAND THE US CONCERN WITH THE SURGE IN THE HK FOOTWEAR EXPORTS IS DISTURBING. MILLS IS THOROUGHLY AWARE OF OUR EQUITY OBLIGATIONS WITH KOREA AND TAIWAN AND PUTTING PRINCIPLES ASIDE, MILLAS AS AN OLD TEXTILE MAN KNOWS ALL ABOUT TRADE DEFLECTION AND THE PROBLEMS IT CAN CAUSE. AT THIS POINT AT LEAST, IF THE USG ENDEAVORS TO NEGOTIATE SOMETHING WITH HKG IT WILL FIND IN THE PERSON OF MILLS A MOST UNWILLING NEGOTIATING PARTNER.

10. CONGEN COMMENT. CONGEN AGREES WITH SMITH ON THE FUTILITY OF EITHER FURTHER USG INTERNAL DISCUSSION OF C/O SCHEME FOR HK FOOTWEAR EXPORTS OR RAISING C/O PROPOSAL WITH THE HKG. WE ALSO SHARE SMITH'S IMPRESSION THAT MILLS AND OTHER HKG TRADE OFFICIALS WILL PROVE INTRANSIGENT OPPONENTS TO FOOTWEAR OMA. PORTRAYING THEMSELVES AS DEFENDERS OF THE FAITH OF FREE TRADE, HKG OFFICIALS WILL LIKELY DIG IN THEIR HEELS IN "PRINCIPLED OPPOSITION" TO ANY TRADE RESTRAINT
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AGREEMENT, WHICH WILL MAKE THEM FRUSTRATING CASUISTS RATHER THAN ACCOMMODATING PRGMATISTS IN NEGOTIATION. PHILIOSOPHY AND STONEWALL STRATEGY ASIDE, HKG OFFICIALS ALSO SEE A FOOTWEAR AGREEMENT WITH THE US PRESAGING AN ANALOGOUS ONE WITH THE EC, FOR WHOM HK HAS ALREADY AGREED TO MONITOR FOOTWEAR EXPORTS.

11. CONGEN HAS DEVELOPED FOOTWEAR TRADE AND INDUSTRY DATA WHICH CONFIRM LARGE-SCALE ASSEMBLY OF TAIWAN-ORIGIN FOOTWEAR COMPONENTS IN HK, AND SUGGEST THAT HK'S INDIGENOUS INDUSTRY HAS NOT INCREASED PLANT CAPACITY SUFIFCIENTLY TO EXPLAIN INCREASES IN NON-RUBBER FOOTWEAR EXPORTS. CONGEN HAS IDENTIFIED FOOTWEAR COMPONENT IMPORTS IN HKG TRADE STATISTICS, AS SITC 612300. IMPORT DATA, SUMMARIZED IN TABLE BELOW, SHOW TAIWAN AS MAJOR SUPPLIER OF FOOTWEAR COMPONENTS DURING LAST TWO YEARS, BUT INDICATE LARGE INCREASES IN TAIWAN-ORIGIN COMPONENT IMPORTS DURING LAST QUARTER 1977 AND FIRST FIVE MONTHS OF 1978. (ALL AMOUNTS IN US DOLLARS CONVERTED AT HK$4.60 EQUALS US $1.00.)

	1976	1977	JAN-MAY 1978
TOTAL	$1,503,035	$2,623,436	$4,174,425
FROM TAIWAN	$1,092,383	$2,177,986	$3,966,323

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(NOTE: HKG STATISTICS RECORD VALUE ONLY; QUANTITY NOT AVAILABLE.)

12. FOOTWEAR INDUSTRY CAPACITY. HKG TRADE STATISTICS IDENTIFY ONLY SEWING MACHINES (1976, 77, SITC 717304; 1978 SITC 724314) AMONG FOOTWEAR-MANUFACTURING EQUIPMENT. IMPORTS OF THESE INDSTRIAL SEWING MACHINES DO NOT SUGGEST LARGE NEW INVESTMENT IN HK FOOTWEAR MANUFACTURING DURING THE LAST TWO AND ONE-HALF YEARS, BUT DO POINT TO AUGMENTED LIGHT ASSEMBLY CAPACITY IN THE FIRST QUARTER OF 1978.

1976 1977 JAN-MAY 1978

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Q	V	Q	V	Q	V
184	$31,462	2	$1413	44	$12,295

13. THE HKG'S MOST RECENT QUARTERLY EMPLOYMENT SURVEY (DATA COLLECTED MARCH 1978, PUBLISHED JULY 1978) SHOWS WORK FORCE INCREASES IN FACTORIES MAKING "NON-RUBBER, NON-PLASTIC OR NON-WOOD FOOTWEAR," MEANING, PRESUMABLY, LEATHER AND LEATHER/FABRIC SHOE FACTORIES, WHILE EMPLOYMENT IN RUBBER FOOTWEAR PRODUCTION CONTINUED TO DECLINE. SMALL EMPLOYMENT INCREASES WERE NOTED FOR MISCELLANEOUS PLASTIC PRODUCTS, BUT THE SURVEY DOES NOT DIS-AGGREGATE PLASTIC FOOTWEAR MANUFACTRUING EMPLOYMENT.

HONG KONG FOOTWEAR INDUSTRY EMPLOYMENT

	3/77	6/77	11/77	12/77	3/78
RUBBER	4,504	3,789	3,929	3,858	3,620
NON-RUBBER	4,602	4,431	4,740	5,001	5,760
NON-PLASTIC					
NON-WOOD					
TOTAL	9,106	8,220	8,669	8.859	9,380

THE ABOVE MARCH 1978 FOOTWEAR INDUSTRY EMPLOYMENT (EXCLUDING PLASTICS) REPRESENTED 1.2 PERCENT OF HK'S TOTAL INDUSTRIAL WORKFORCE OF 766,230.

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SAS ID: 1581224
Secure: OPEN
Status: NATIVE
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TAGS: ETRD, HK
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